

Message Text

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SUBJECT: MAJOR PROJECT: BAYOVAR PETROLEUM REFINERY
AND PETROCHEMICAL COMPLEX

REF: (A) STATE 100553; (B) STATE 128947

(C) 76 LIMA 1413; (D) 76 LIMA 4574

1. SUMMARY: FEASIBILITY STUDY ON BAYOVAR PETROLEUM REFINERY IS CURRENTLY BEING REVISED DOWNWARD. US FIRMS IN STRONGEST POSITION TO BE SELECTED FOR CATALYTIC CRACKING TECHNOLOGY. OUR MAIN COMPETITORS FOR CONSTRUCTION STAGE ARE JAPAN AND GREAT BRITAIN. INTERNATIONAL TENDER FOR PREQUALIFICATION FOR CONSTRUCTION AND FINANCING MAY BE CALLED DURING FIRST QUARTER 1978 BUT SLIPPAGE LIKELY. PROGRESS ON PETROCHEMICAL COMPLEX TOTALLY DEPENDENT ON FORWARD MOVEMENT ON PETROLEUM REFINERY WHICH WILL PROVIDE REQUIRED RAW MATERIALS. A VAST AND COSTLY INFRASTRUCTURE MUST ALSO BE BUILT AT BAYOVAR BEFORE WORK CAN BEGIN ON REFINERY AND PETROCHEMICAL COMPLEX.
END SUMMARY

2. EMBASSY DISCUSSED WITH HIGH LEVEL OFFICIALS OF ODECOB (GOP AGENCY COORDINATING DEVELOPMENT OF BAYOVAR COMPLEX), PETROPERU (GOP PETROLEUM MONOPOLY) AND INDUPERU (GOP INDUSTRIAL DEVELOPMENT ENTERPRISE) STATUS OF SUBJECT PROJECTS. THE INFORMATION OBTAINED FOLLOWS:

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3. BAYOVAR PETROLEUM REFINERY

A. THE ORIGINAL FEASIBILITY STUDY FOR PRODUCTION CAPACITIES OF 150,000 B/D AND 200,000 B/D MADE BY PETROPERU'S TECHNICIANS IS CURRENTLY BEING REVISED BY THAT AGENCY. REASSESSMENT WILL INCLUDE NEW PROJECTIONS

OF LOCAL DEMAND FOR REFINERY PRODUCTS, DISTRIBUTION, AND MOST IMPORTANT AVAILABILITY OF CRUDE OIL. APPARENTLY NEW PRODUCTION CAPACITIES WILL BE 120,000 B/D AND 150,000 B/D, WITH A CATALYTIC CRACKING CAPACITY OF 30,000 B/D. THE ESTIMATED COST OF PROJECT IS NOW 30,000 MILLION SOLES (APPROXIMATELY US\$380 MILLION).

B. BASIC ENGINEERING AND DESIGN WORK WILL BE PERFORMED BY FIRM CHOSEN TO UNDERTAKE CONSTRUCTION OF PROJECT.

C. THREE AMERICAN FIRMS--KELLOGG, EXACO AND UOP--ARE PARTICIPATING IN NEGOTIATIONS FOR SELECTION OF CATALYTIC CRACKING TECHNOLOGY. INFORMANTS WOULD NOT PROVIDE NAMES OF NON-US COMPETITORS BEING CONSIDERED. PETROPERU'S INFORMANTS STATE THE ABOVE AMERICAN FIRMS ARE THE STRONGEST PARTICIPANTS AND HAVE THE BEST CHANCE OF WINNING. PETROPERU ALREADY USES UOP PATENT AT ALL ITS INSTALLATIONS. DATE FOR FINAL SELECTION STILL UNDETERMINED BUT IS EXPECTED IN APPROXIMATELY SIX MONTHS.

D. SEVERAL FIRMS HAVE EXPRESSED INTEREST IN WINNING CONSTRUCTION STAGE OF PROJECT. THESE INCLUDE KELLOGG (USA), MITSUBISHI (JAPAN), AND BRITISH PETROLEUM (UK). ADDITIONAL FRENCH, GERMAN AND ITALIAN FIRMS ARE ALSO BEING CONSIDERED BUT THEIR NAMES WERE NOT REVEALED. IT IS ANTICIPATED THAT FIRMS WILL BE REQUIRED TO OFFER COMPLETE FINANCING FOR THE PROJECT.

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E. FOLLOWING IS REVISED TIME-TABLE FOR PROJECT BUT STILL SUBJECT TO CHANGE:

- DECEMBER 1977: COMPLETION OF FEASIBILITY STUDY REVISION THAT IS BEING CARRIED OUT BY PETROPERU.
- DECEMBER 1977: INTERNATIONAL TENDER DOCUMENTS, NOW UNDER PREPARATION BY PETROPERU, COMPLETED.
- FIRST QUARTER OF 1978: INTERNATIONAL TENDER FOR PREQUALIFICATION OF FIRMS FOR THE CONSTRUCTION AND FINANCING OF PROJECT WILL BE CALLED.
- END OF 1978: CONSTRUCTION START-UP.
- 1982 OR 1983: REFINERY ONSTREAM.

4. THE INFORMANTS EMPHASIZED THE FACT THAT THE BAYOVAR PETROLEUM REFINERY HAS HIGH PRIORITY WITH PERU'S INDUSTRIAL DEVELOPMENT PLAN AND THEREFORE WILL BE UNDERTAKEN BY ALL MEANS.

5. PETROCHEMICAL COMPLEX

A. ACCORDING TO ODECOB AND INDUPERU OFFICIALS INTERVIEWED, PETROCHEMICAL COMPLEX WILL INCLUDE 16 SEPARATE PLANTS DIVIDED INTO 3 PRODUCTION AREAS, AS FOLLOWS:

- BASIC
- INTERMEDIATE
- FINISHED

FOUR OF THE 16 PLANTS, DESIGNED TO PRODUCE BASIC PETROCHEMICALS, FORM PART OF THE FIRST STAGE OF PROJECT AND ARE AT FEASIBILITY STUDY STAGE. PRE-FEASIBILITY STUDY COMPLETED ON ADDITIONAL 2 PLANTS. ONLY PROFILE BY INDUPERU'S TECHNICIANS COMPLETED ON REMAINING 10 PLANTS. REPORTEDLY EACH PLANT REPRESENTS SOME US\$40 MILLION INVESTMENT. WHILE THE FIRST AREA IS RESERVED EXCLUSIVELY FOR GOP, LATTER TWO PRODUCTION AREAS ARE OPEN TO JOINT VENTURES AND EQUITY PARTICIPATION BY FOREIGN FIRMS.

B. INDUPERU, AFTER ELIMINATING A NUMBER OF FIRMS, HAS LIMITED OFFICIAL USE

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PREQUALIFIED A SHORT-LIST OF 3 CONSULTING FIRMS TO CARRY OUT PROJECT FEASIBILITY AND BASIC ENGINEERING STUDIES ON PROJECT. THESE WERE CONSIDERED TO HAVE BEST QUALIFICATIONS. LIST INCLUDES TWO AMERICAN COMPANIES-- BECHTEL AND LUMMUS--AND ONE EUROPEAN FIRMS WHICH INFORMANTS REFUSED TO IDENTIFY.

INDUPERU OFFICIALS INDICATED THAT THERE IS STILL CHANCE FOR OTHER CONSULTING FIRMS TO BE CONSIDERED IN PRELIMINARY SELECTION PROVIDED THEY HAVE TOP QUALIFICATIONS. INDUPERU IS INTERESTED IN INTEGRAL FEASIBILITY STUDY, ENCOMPASSING OVERALL PROJECT, STAGE BY STAGE, INSTEAD OF INDIVIDUAL PLANTS.

C. PROJECTED TIME-TABLE: INDUPERU HAS REQUESTED AUTHORIZATION FROM MINISTER OF INDUSTRY AND TOURISM TO NEGOTIATE WITH PREQUALIFIED FIRMS. AUTHORIZATION IS EXPECTED WITHIN NEXT FEW MONTHS AND NEGOTIATIONS SHOULD BE CONCLUDED APPROXIMATELY THREE MONTHS THEREAFTER. ONCE FINAL SELECTION IS MADE, CONSULTING FIRM CHOSEN WOULD HAVE 8 MONTHS IN WHICH TO COMPLETE THE STUDY.

D. FEASIBILITY STUDY WILL BE FINANCED WITH FUNDS PROVIDED BY THE ANDEAN DEVELOPMENT CORPORATION (CAF). EXTERNAL FINANCING WILL BE REQUIRED, HOWEVER, FOR BASIC ENGINEERING STUDY.

E. NEGOTIATIONS BY INDUPERU ON PETROCHEMICAL COMPLEX ARE BEING CLOSELY GUARDED. TOP OFFICIALS OF THAT AGENCY WOULD NOT REVEAL RELATIVE COMPETITIVE POSITION SHORT-LISTED FIRMS NOR INDICATE SPECIFICALLY ON WHAT BASIS FINAL CHOICE WILL BE MADE.

6. COMMENT: PROGRESS ON THE PETROCHEMICAL COMPLEX IS

TOTALLY DEPENDENT ON PROGRESS ON THE PETROLEUM REFINERY WHICH WILL PROVIDE RAW MATERIAL FOR PLANTS INVOLVED. ANY DELAYS IN BUILDING THE REFINERY WILL DELAY WORK ON THE PETROCHEMICAL COMPLEX. A VAST AND COSTLY INFRASTRUCTURE MUST BE DEVELOPED AT BAYOVAR BEFORE WORK CAN BEGIN ON LIMITED OFFICIAL USE

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REFINERY AND PETROCHEMICAL COMPLEX. THE REQUIRED INFRA-STRUCTURE FACILITIES INCLUDE WATER, ROADS, ELECTRIC POWER, PORT FACILITIES, HOUSING FOR SOME 25,000 INHABITANTS, ETC. ODECOB IS DIRECTLY IN CHARGE OF INFRASTRUCTURE DEVELOPMENT. REPORTEDLY IADB HAS PROVIDED US\$10 MILLION LOAN TO FINANCE INVESTMENT STUDIES FOR THIS PURPOSE. THE PIPELINE CARRYING OIL FROM JUNGLE WELLS TO BAYOVAR BEGAN OPERATIONS LAST WEEK.

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